ECONOMIC MARKET SNAPSHOT

WINTER 2019 | ISSUE NO. 7

National MI is pleased to bring you our Winter Edition of the Economic Market Snapshot.

Slower growth in interest rates and home prices will boost housing affordability in 2019, per Fannie Mae, putting a welcome damper on affordability risks. The January housing forecast shows the average 30-year fixed-rate mortgage is expected to remain stable through 2019 and 2020.

After an unpredictable 2018, rate environment stability, coupled with relaxed home value appreciation, will aid buyer confidence.

Millennials are making up the key share of buyers as their income increases and as they start and grow their families. Realtor.com expects that Millennials will account for 45% of mortgages in 2019.

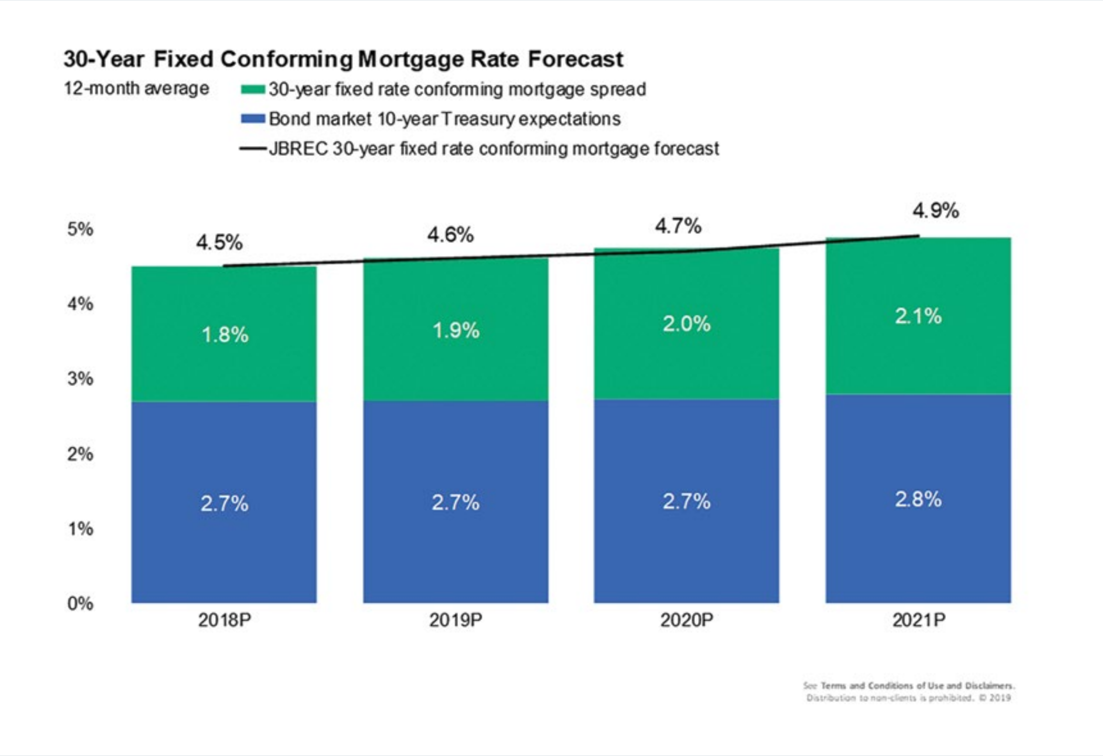
- The economic foundation is strong with the unemployment rate near 3.9%, the lowest level since 2000. The broader measures that capture underemployment and discouraged workers continues to trend down and remains near the lowest level since 2001.
- Existing home sales are consistent and running at a 5.3 million annual rate, and are expected to decline through 2021 to 4.8 million. If mortgage rates remain steady, this could positively impact the volume as affordability risk will be reduced.
- Overall economic conditions are above average and trending near the highest level since 2005, according to the Burns Economic Performance Index™, which tracks 34 major data points that quantify the current state of the economy.
- Per the National Association of REALTORS®, the Realtor Confidence Index™ indicates realtors are more optimistic about sales conditions over the next six months, even though the index dropped below 50 in 2018.
- Consumers have rebuilt their credit profiles. In 2018, 42% had FICO scores of 750+, and only 19% had FICO scores below 600. These are both the best results in over 13 years. The median FICO at mortgage origination was 707 during the credit heyday of 2006. As of 2Q18, the median score rose to 760.

For 2019, home appreciation is predicted to slow but should remain positive. With the new forecast of stable interest rates based on the Federal Reserve signaling a pause in raising the Federal Lending rate, affordability risk is lessened. Under the current assumptions, strong economic performance and low unemployment supports positive but moderate home sales volume through 2019.

Please refer to our
Economic Market Snapshot webpage
for previous editions of this report

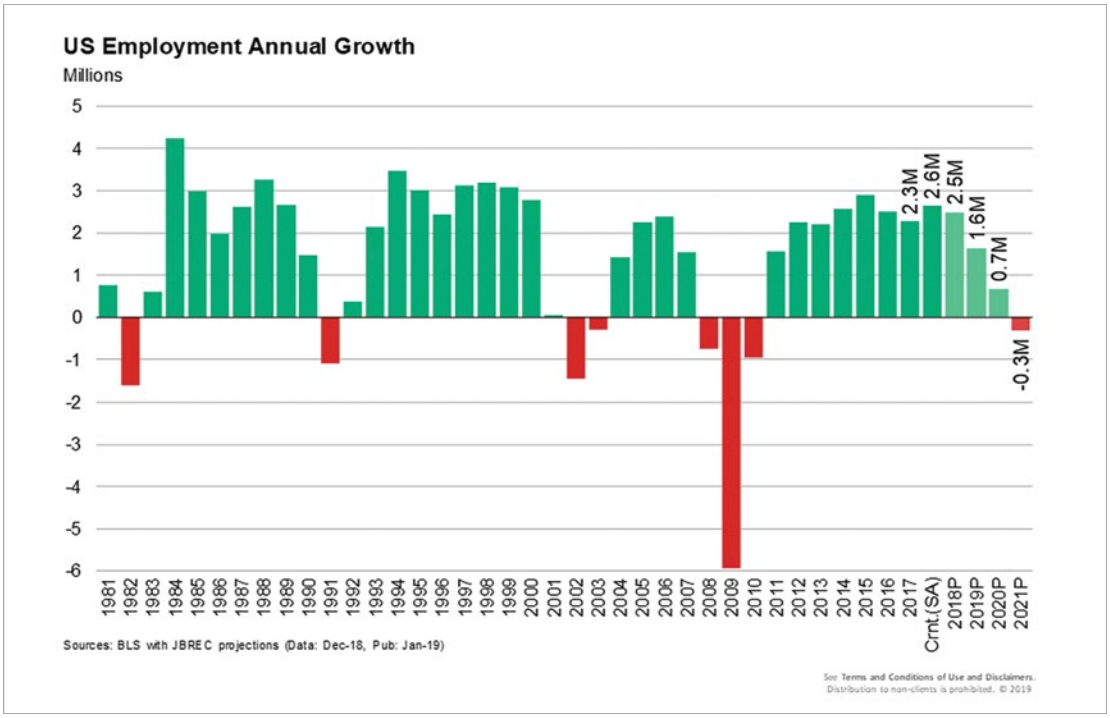
We Base Our Mortgage Rate Forecast on Market Pricing for Treasuries and Our View of the Mortgage Premium

The future spread for mortgage rates over 10-year Treasuries should be ~20-30 basis points higher than the historical 170 basis point spread for 3 reasons: 1) Mortgage servicing compliance costs have risen ~25bps per year, 2) GSE mortgage fees have increased ~25bps per year, 3) Mortgage investing risk has increased as some liability shifts to mortgage owners, but has also decreased due to better documentation and an explicit government guarantee, so assume a negligible net effect. We are calling for slowing economic growth going forward, which should gradually drive premiums higher. The spread can vary widely over time for other reasons.



US Employment Growth

Our forecasts show that annual job growth of 1.6M in 2019 will decline to negative growth in 2021.



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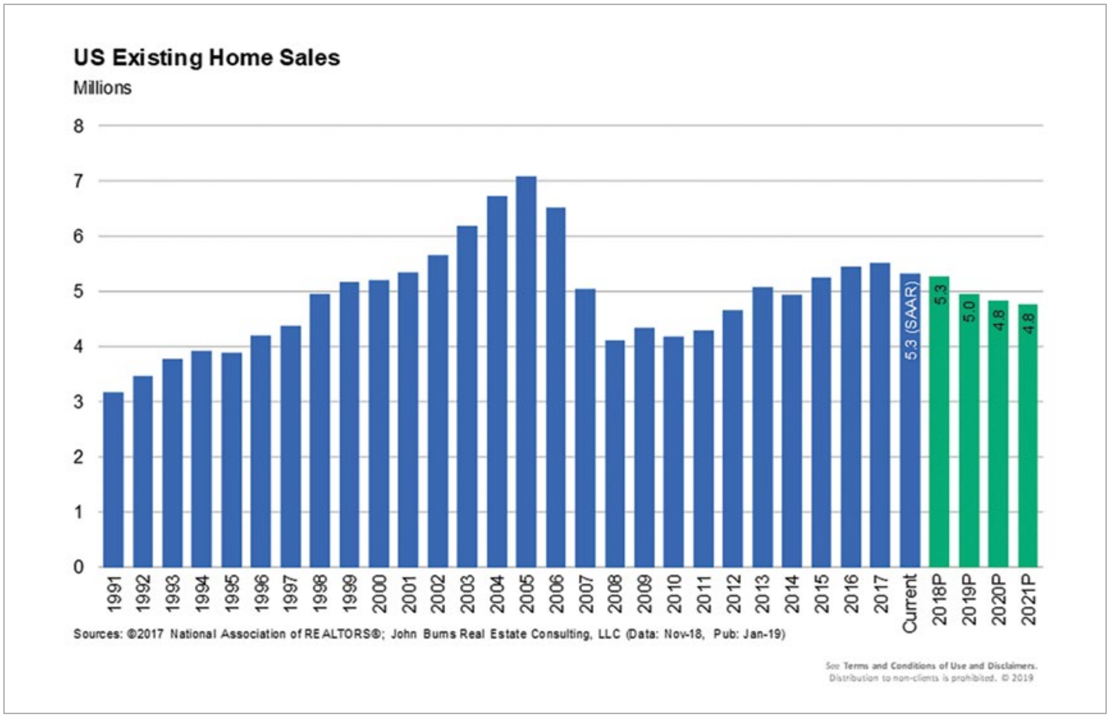
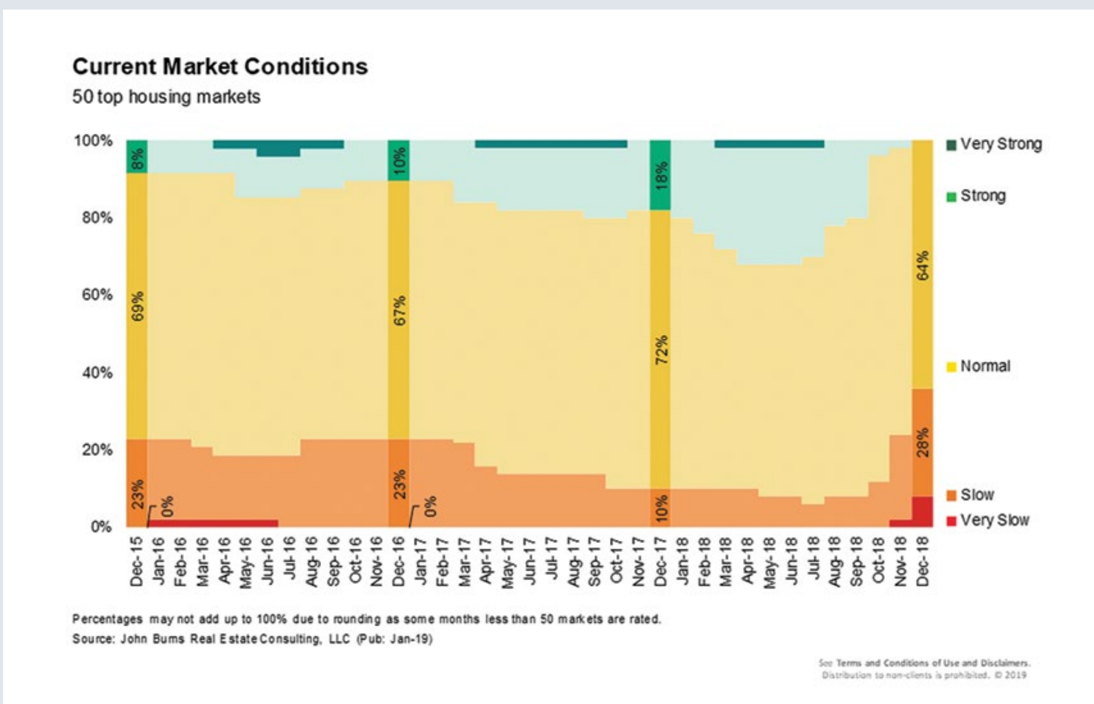
US Existing Home Sales

Existing home sales are currently running at a 5.3 million Seasonally Adjusted Annual Rate (SAAR) in November. We forecast a decline in existing home sales volumes through 2021.



Current Market Conditions: 64% are Normal or Better

In our rating process, Normal reflects builders selling 2-3/month per community with slightly rising net prices. Currently, 36% of markets are Slow/Very Slow – the most in our data going back to 2015.



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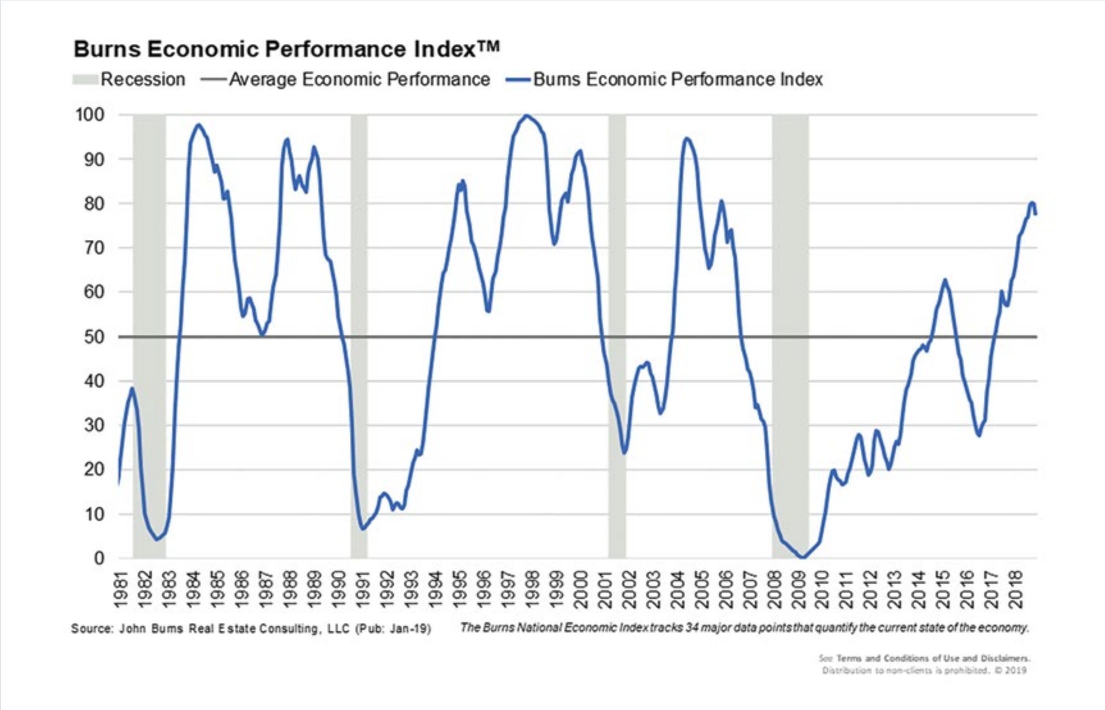
Burns Economic Performance Index™

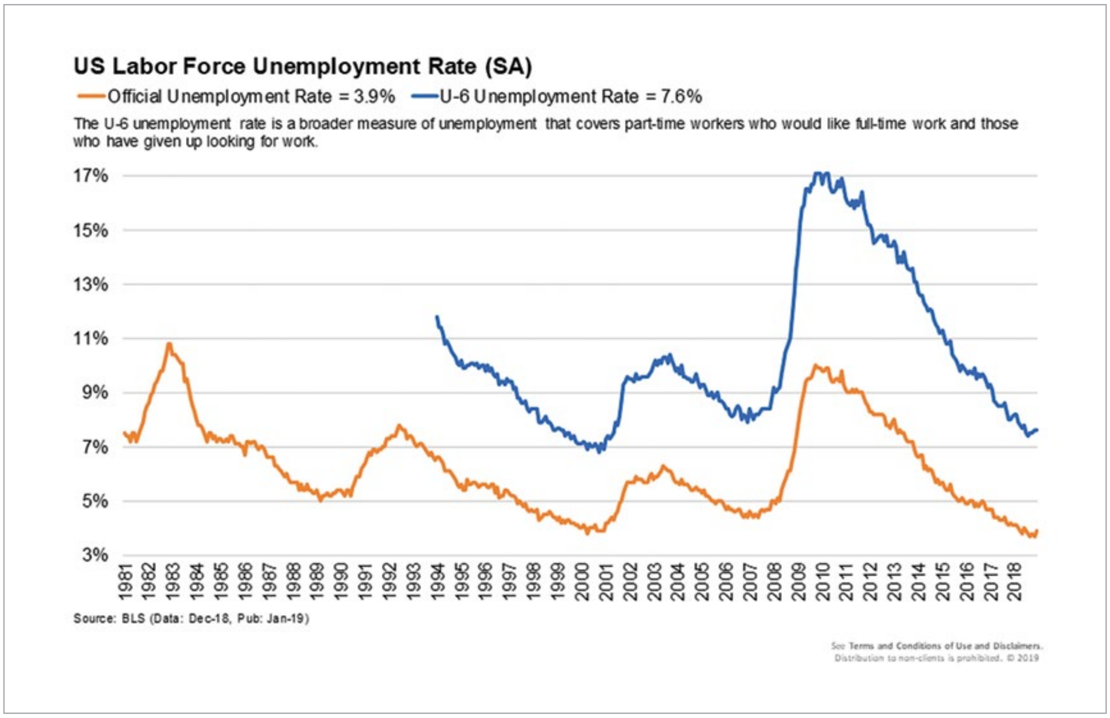
Our Burns Economic Performance Index signals above average economic conditions and is trending near the highest level since 2005.

The Burns National Economic Index tracks 34 major data points that quantify the current state of the economy.



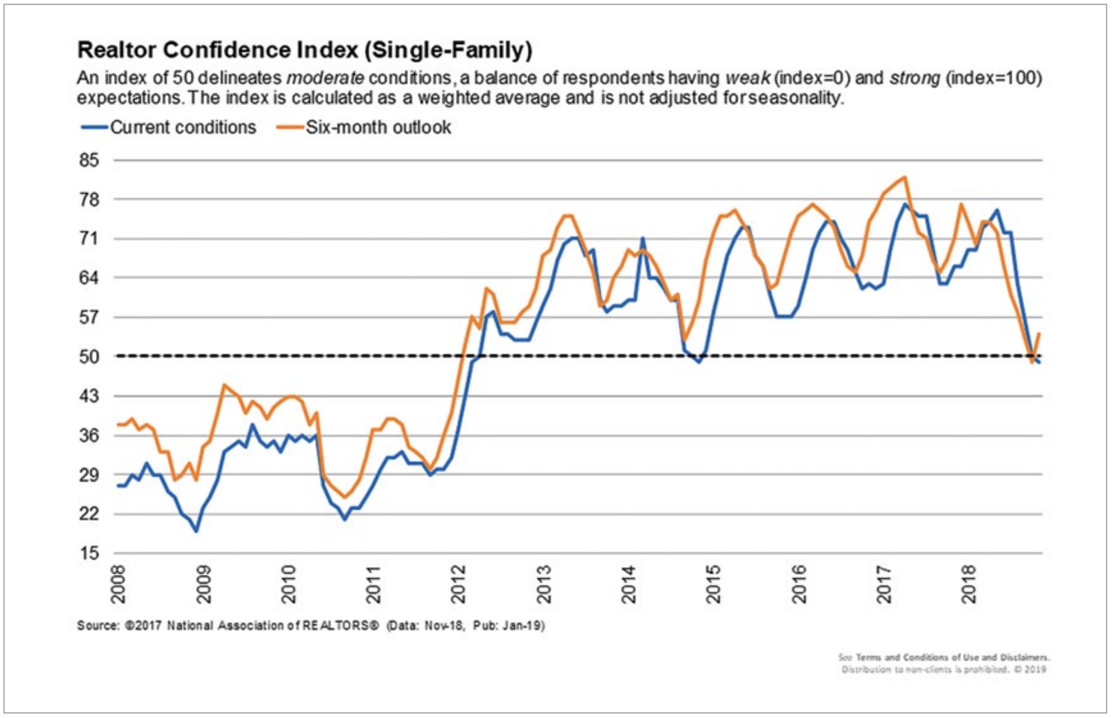
Unemployment Rate

The Unemployment Rate is near the lowest level since 2000 at 3.9%. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, has been trending down and remains near the lowest level since 2001.



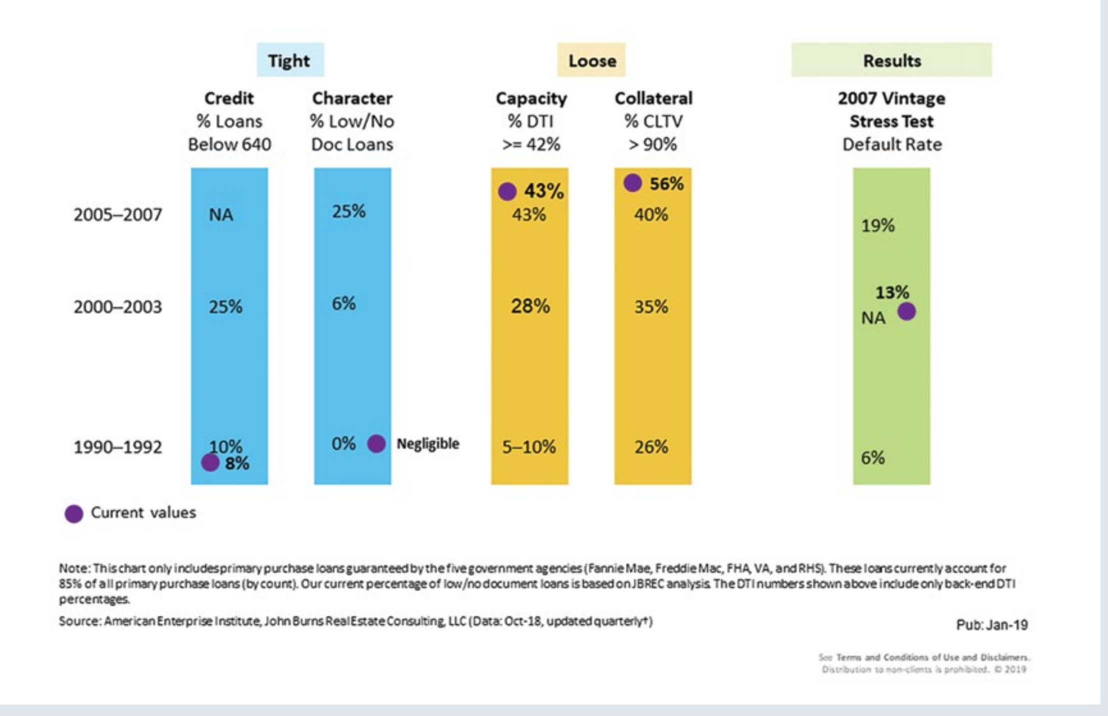
Realtor Confidence Index

The current conditions of the index dropped below 50, signaling weak conditions for the first time since November 2014. Realtors are more optimistic about sales conditions over the next six months.



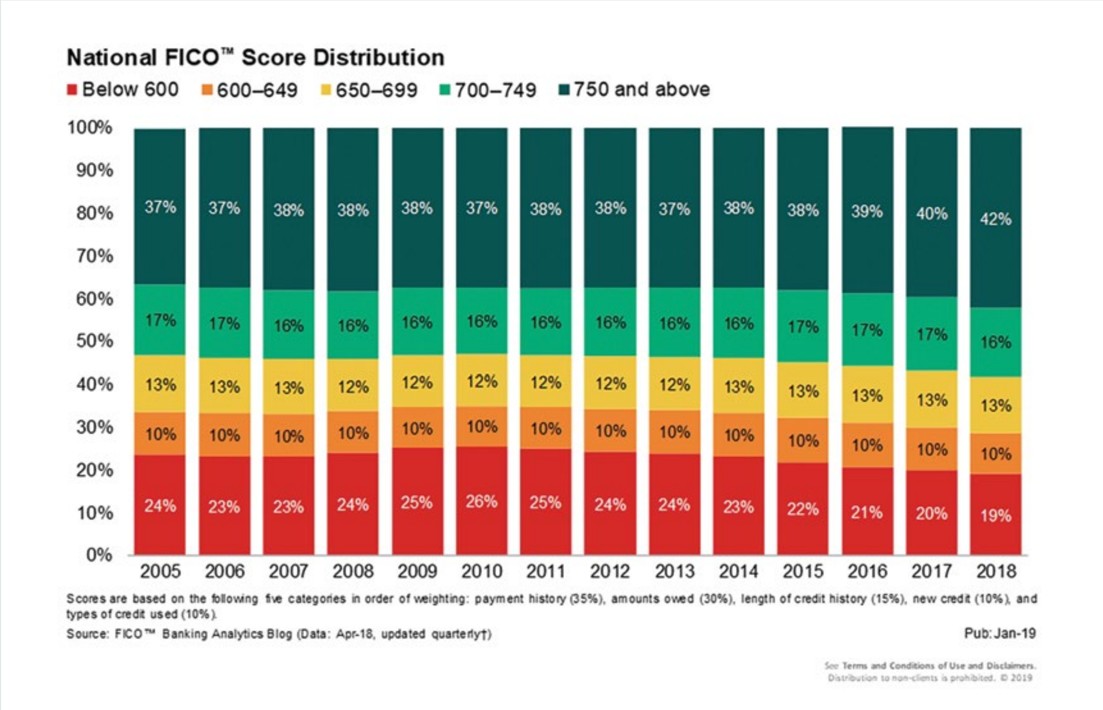
Lending Standards

Current lending standards are tight on credit and documentation but not on DTI and LTV.



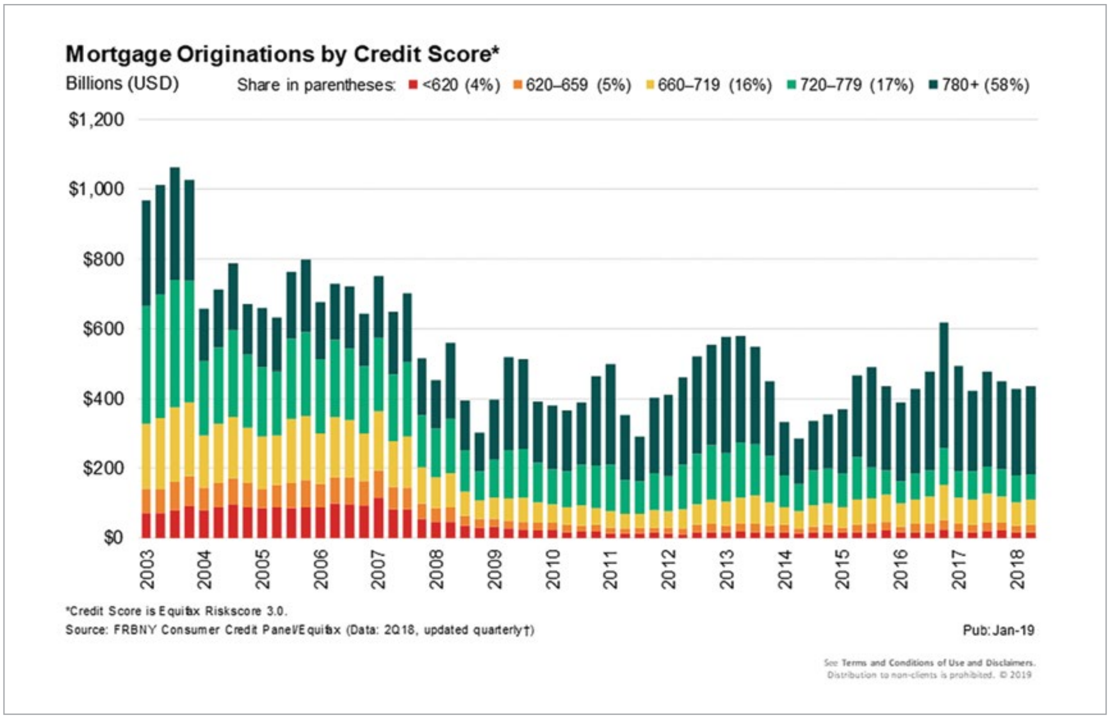
National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2018, 58% had FICO scores above 700, and 81% had FICO scores above 600.



Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 2Q18, only 4% of mortgages went to borrowers with a credit score less than 620.



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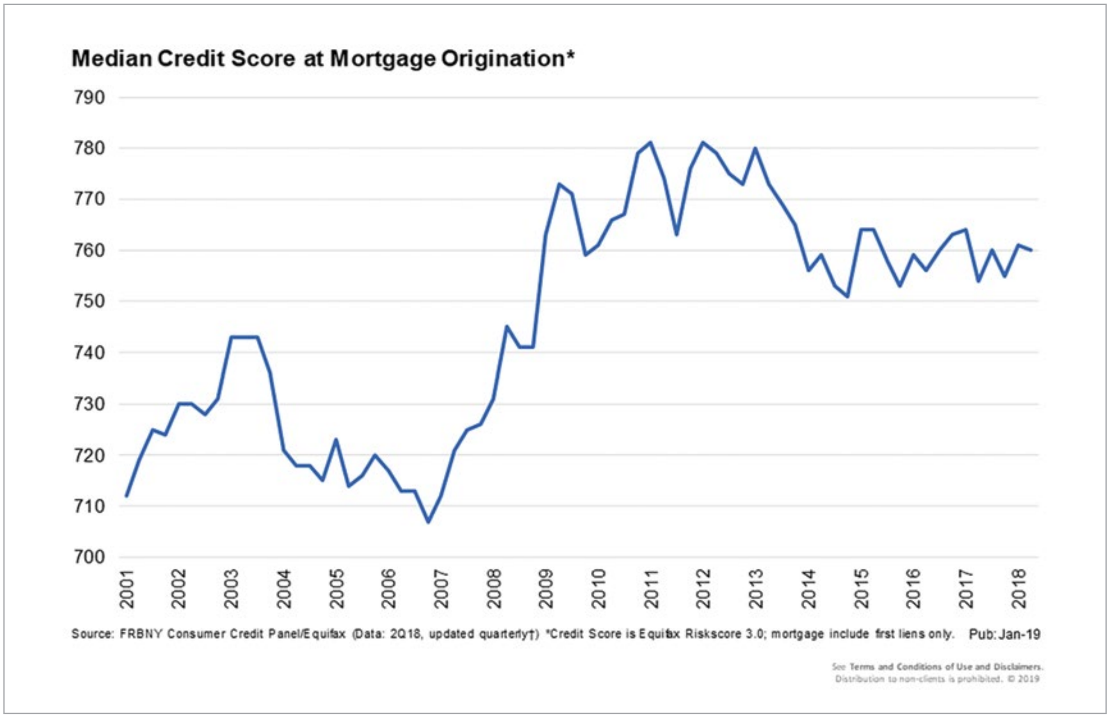
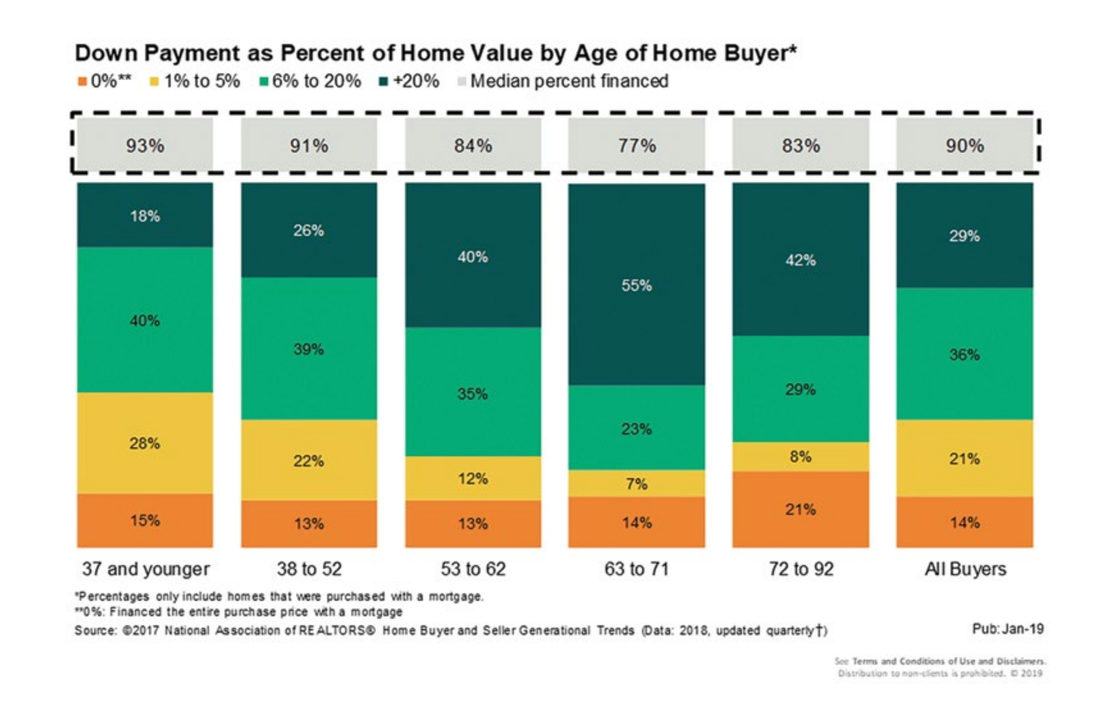
Median Credit Score at Mortgage Origination

The median credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 2Q18, median score at origination was 760.



Financing the Home Purchase by Age Group

35% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 43% among those 37 and younger. Only 21% of 63- to 71-year olds have a LTV of +95%.



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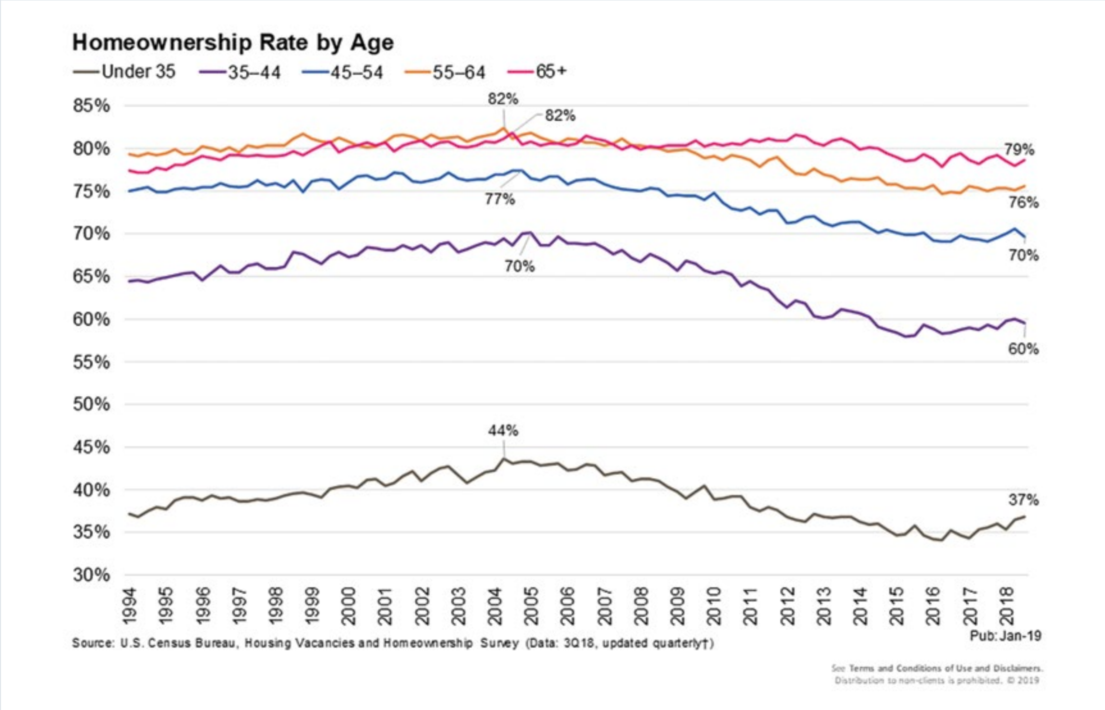
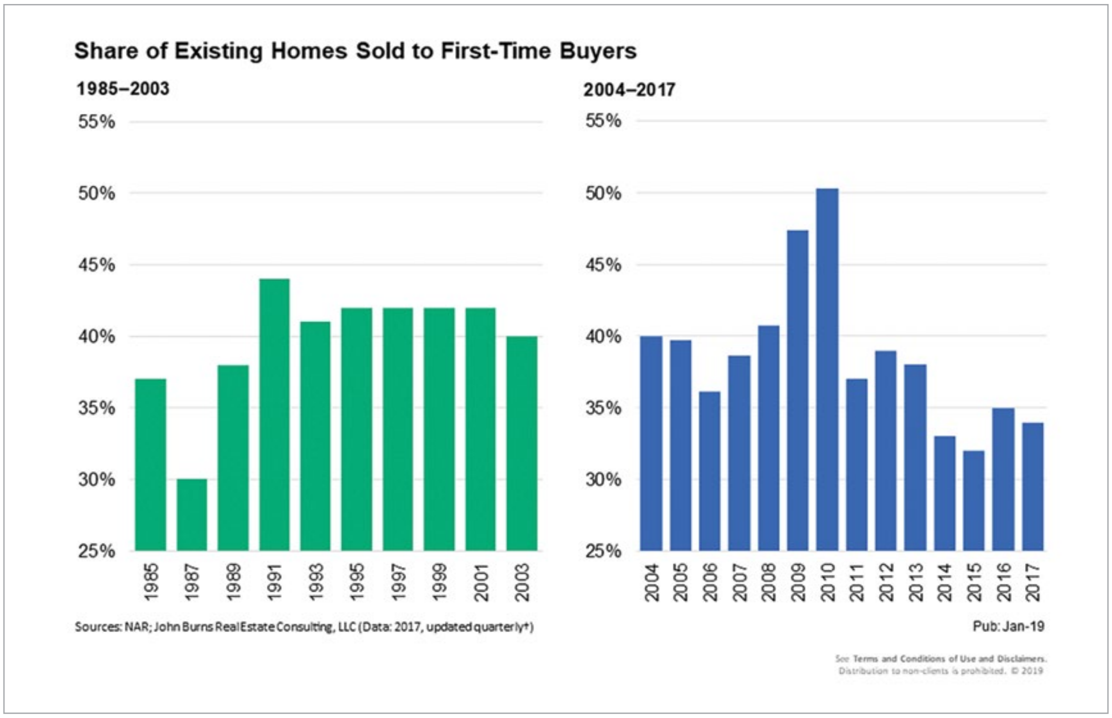
Homeownership Rate by Age

Homeownership rates across age groups have dropped noticeably from 2004-2005 levels.



Share of Existing Homes Sold to First-Time Buyers

The share of existing homes sold to first-time buyers is near the lowest level since 1987. Peak share was reached in 2010, when 50% of buyers were first-time buyers.



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Rate GPS℠

Granular Pricing System

National MI is excited to offer the latest in risk-based pricing technology — Rate GPS. Our granular pricing system delivers competitive rates based on individual loan characteristics and will help you gain more business from well-qualified homebuyers.

- **Dynamic Pricing Tool** gives you the most competitive pricing for your borrowers
- **Easily Access** Rate GPS via MI AXIS, our online pricing tool, and most LOS and pricing engines
- **Supports All Product Lines** including BPMI, LPMI, single and monthly

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